

Message Text

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TO SECSTATE WASHDC 6268

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PLEASE PASS AMBASSADOR KEATING

E.O. 11652: N/A

TAGS: EFIN, IS

SUBJ: ISRAEL'S ECONOMIC AUSTERITY PROGRAM MAKES SLOWER
PROGRESS THAN ANTICIPATED

1. WHILE ECONOMIC ACTIVITY HAS SLOWED SOMEWHAT, DECLINE
IS LESS THAN PLANNED,
ACCORDING TO EPHRAIM DOVRAT, ECONOMIC ADVISER TO MINISTER OF
FINANCE, IN RECENT PRESS INTERVIEWS. MOST RECENT DATA REVEAL
GNP INCREASING AT ANNUAL RATE OF THREE TO FOUR PERCENT CON-
TRASTED TO OFFICIAL FORECAST OF TWO TO THREE PERCENT FOR 1975.
SIMILARLY, CONSUMPTION IS UP AT ANNUAL RATE OF ONE OR TWO
PERCENT WHILE IT WAS PROJECTED TO DECLINE THREE TO FIVE PERCENT
DURING THE YEAR. IMPORTS CONTINUED TO GROW AT A RATE HIGHER
THAN DESIRED BY GOI, WHILE EXPORTS, IN REAL TERMS, ARE UP ONLY
FIVE TO SIX PERCENT VERSUS OFFICIAL GOI TARGET OF 15 PERCENT.
SINCE NOVEMBER DEVALUATION, INDUSTRIAL EXPORTS, EXCLUDING DIAMONDS,
HAVE INCREASED 19 PERCENT, BUT DOVRAT OPINED THAT INCREASE DUE
TO RISING PRICES RATHER THAN REAL GROWTH. FOREIGN EXCHANGE
RESERVES HAD INCREASED \$500 MILLION SINCE DEVALUATION AS A
RESULT OF GOVERNMENT BORROWING AND CESSATION OF SPECULATION
STIMULATED BY ANTICIPATED DEVALUATION, BUT NOT AS A RESULT
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OF A NEW ECONOMIC STRUCTURE, OR A REAL INCREASE IN EXPORTS.

MONEY SUPPLY HAD INCREASED BY 12.5 PERCENT IN FIRST QUARTER OF THIS YEAR.

2. GOI HAD EXPECTED EASING OF PRESSURES ON OVEREMPLOYMENT, BUT THIS HAS NOT OCCURRED, SAID DOVRAT. LAST WEEK LABOR EXCHANGES REPORTED 8,000 REQUESTS FOR WORKERS CONTRASTED TO REGISTRATION OF ABOUT 800 UNEMPLOYED. IF THIS CONTINUES, UNEMPLOYMENT WILL NOT REACH 5.5 PERCENT RATE IN 1975 PROJECTED BY GOI, BUT 4.5 PERCENT WHICH WOULD STILL BE FULL EMPLOYMENT ACCORDING TO DOVRAT. IN SUMMARY, TRENDS WERE IN THE RIGHT DIRECTION BUT DEGREE OF SLOWDOWN PLANNED BY THE GOVERNMENT HAD NOT YET BEEN ACHIEVED, ALTHOUGH DOVRAT ADDED THAT THE IMPACT OF THE DEVALUATION HAD STILL NOT BEEN FULLY FELT IN ECONOMY.

3. EMBASSY SOUNDINGS WITH BANKERS AND BUSINESSMEN CONFIRM DOVRAT'S ANALYSIS. THERE IS VIRTUAL AMAZEMENT THAT PRIVATE CONSUMPTION IS CONTINUING AT HIGH LEVELS AND EVEN INCREASING. DAVID WAINSHAL, DIRECTOR GENERAL, MINISTRY OF HOUSING, TOLD EMBASSY OFFICER THAT HOUSING STARTS WERE UP IN JANUARY AND FEBRUARY AND THAT, IN FACT,

CEMENT AND OTHER BUILDING MATERIALS ARE PRESENTLY IN SHORT SUPPLY.

4. COMMENT: IMPLICATION OF NONATTAINMENT GOI ECONOMIC POLICY GOALS IS THAT GOI WILL HAVE TO CONSIDER ADDITIONAL AUSTERITY MEASURES IN ORDER TO COOL OFF ECONOMY.
DOZIER

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